

FDIC State Profile

Fall 2005

Tennessee

Tennessee job gains slow.

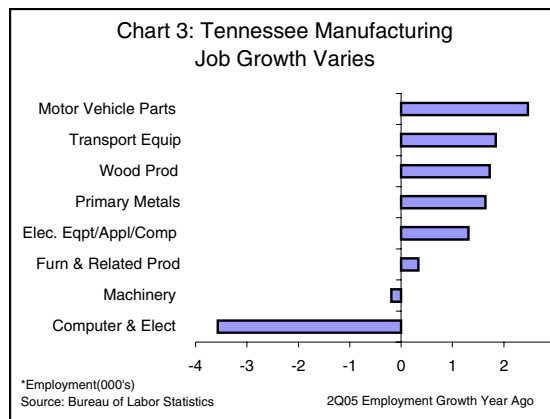
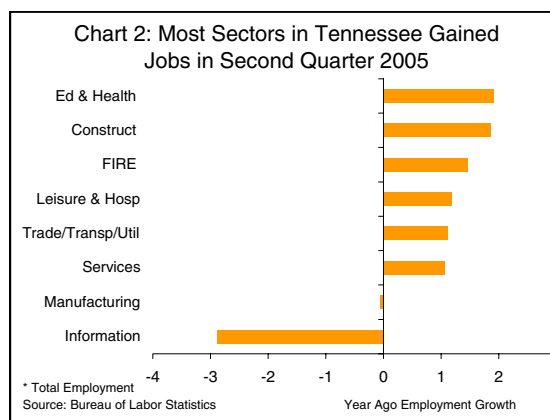
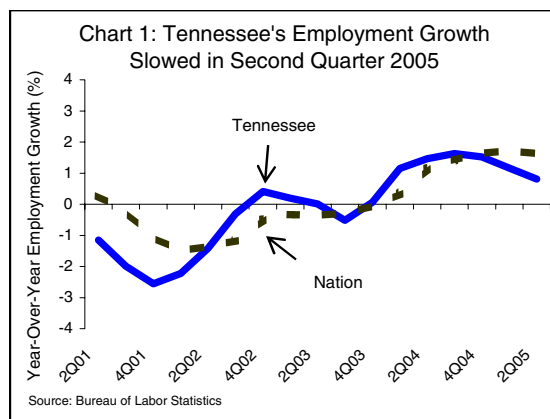
- Year-over-year job growth in Tennessee slowed to 0.8 percent in second quarter 2005 compared with 1.5 percent a year ago in comparison to the nation's 1.6 percent growth (see Chart 1).
- Slow-down is attributed to the professional and business services; trade and transportation; leisure and hospitality; and education and health services sectors which all grew at rates below the prior quarter and to a significant contraction in the information sector (see Chart 2).

Manufacturing job gains end in the second quarter.

- Manufacturing employment levels in Tennessee were essentially unchanged in second quarter 2005 compared with a year earlier, following three consecutive quarters of positive growth.
- Job losses in computer and electronics, and machinery offset gains in motor vehicle, transportation equipment and wood products (see Chart 3).
- National indicators point to possible overall improvement in the manufacturing sector.¹ However, the near term prospects for the local manufacturing segments are clouded by several announced plant layoffs and closures in the months ahead. For example, Murray Manufacturing announced plans to shutdown and lay off about 1,400 employees at its **Lawrenceburg** plant.² Companies including Crotty, Kellwood, Assured Casting, Honeywell, Russell Stover Candies, and Chennault have also announced layoffs or plant closures.

Banking trends in Tennessee manufacturing dependent counties.

- Of the 95 counties in Tennessee, greater than two-thirds are dependent on manufacturing and are home to the headquarters of 128 banks (or 63.4 percent) of all banks



¹The Institute for Supply Management's (ISM) index was 52.8 and 56.6 and, the Chicago Purchasing Managers Production Index was 60.9 and 70.5 in second quarter 2005 and July 2005, respectively. An indices reading of 50 or higher indicates the sector is expected to expand.

²http://www.Tennessee.com/business/archives/05/03/69349342.shtml?Element_ID=69349343
- 5/11/2005

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in the state. In general, bank performance in manufacturing dependent counties varies little from that of banks located outside of manufacturing dependent areas.

- Credit quality improved among banks headquartered in Tennessee, particularly in counties dependent on manufacturing. However, banks in manufacturing dependent counties continued to report higher past-due loan rates (see Map 1).
- Return on Assets (ROA) increased for institutions in counties not dependent on manufacturing but declined in manufacturing dependent counties. Similarly, the median net interest margin (NIM) increased for institutions in counties not dependent upon manufacturing in the second quarter 2005 but declined in manufacturing dependent counties.

Metro Spotlight: Nashville labor and housing markets remain strong.

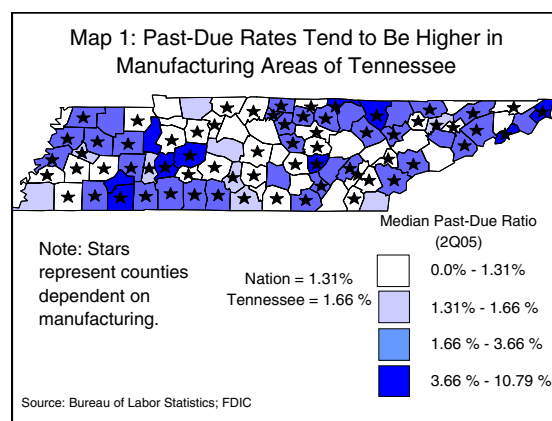
- Payroll employment in metro **Nashville** grew by 1.7 percent on a year-over-year basis in second quarter 2005.
- **Nashville** experienced a slight growth in local state government and manufacturing. Other areas of employment strength and weakness mirror that of the state with job growth led by business services, trade, transportation and utility, and education and health services.
- Home prices in Nashville rose by 9.5 percent in July 2005 compared with a year earlier. The median home price was \$166,400, with a record of over 21,900 homes sold. Condominium prices in the area appreciated by 10.7 percent during the same period.³
- With strong growth in the real estate sector in Nashville, financial institutions reported strong asset growth in second quarter 2005 led by gains in commercial real estate and multifamily residential lending. Commercial real estate loan growth increased 22 percent for the first half of 2005 compared to 16 percent a year ago. Multi-family residential loans increased 10 percent for the same period compared with a decline of over 3 percent a year ago.

Recent hurricanes could have a wide range of affects on the state economy.

- An estimated 13,000 people arrived in Tennessee after a large area of the gulf coast was severely damaged on August 29th by Hurricane Katrina. The evacuees were concentrated in the **Memphis** area (population 1.1 million) a historical lodging point for some coastal

residents seeking shelter. The immediate impact of this migration, and any impact resulting from Hurricane Rita in September, may temporarily strain the government and private aid services sectors.

- In addition, rising energy prices resulting from the hurricanes could negatively affect consumer and business finances. Of particular concern locally are the transportation (including air and ground transport) and agricultural sectors, which rely heavily on energy and energy-related products.⁴
- The retail and lodging sectors will most likely benefit from the influx of evacuees. Immediate short-term effects will stress the school systems and local government services. However, the long-term effects on the economy and banking in the state will depend to a considerable extent on the number of evacuees who decide to establish permanent residence.



³Greater Nashville Association of Realtors. Inc.

⁴On September 7, 2005, the American Trucking Association estimated total fuel expenditures by the trucking industry would rise 37 percent in 2005 from a year ago.

Tennessee at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

| Employment Growth Rates | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 0.8% | 1.2% | 1.5% | 1.4% | -0.1% |
| Manufacturing (15%) | -0.1% | 0.4% | -0.3% | -0.4% | -3.6% |
| Other (non-manufacturing) Goods-Producing (5%) | 1.8% | 1.9% | 1.6% | 1.7% | 0.1% |
| Private Service-Producing (65%) | 1.1% | 1.8% | 2.2% | 2.1% | 0.7% |
| Government (15%) | 0.0% | -1.0% | 0.3% | 0.7% | 0.2% |
| Unemployment Rate (% of labor force) | 6.0 | 5.9 | 5.4 | 5.4 | 5.5 |

| Other Indicators | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|---|--------------|--------------|--------------|-------------|-------------|
| Personal Income | 6.1% | 6.4% | 6.9% | 5.9% | 4.4% |
| Single-Family Home Permits | 5.1% | 0.8% | 13.4% | 13.9% | 10.2% |
| Multifamily Building Permits | 24.0% | -54.9% | 42.1% | 45.7% | 0.0% |
| Existing Home Sales | 9.0% | 8.6% | 20.0% | 21.2% | 15.0% |
| Home Price Index | 6.8% | 5.6% | 3.9% | 4.5% | 3.6% |
| Bankruptcy Filings per 1000 people (quarterly annualized level) | 10.48 | 10.38 | 10.57 | 10.34 | 11.57 |

BANKING TRENDS

| General Information | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--------------------------------|--------------|--------------|--------------|-------------|-------------|
| Institutions (#) | 202 | 208 | 211 | 208 | 208 |
| Total Assets (in millions) | 80,598 | 139,929 | 123,274 | 133,494 | 118,572 |
| New Institutions (# < 3 years) | 16 | 16 | 14 | 14 | 13 |
| Subchapter S Institutions | 44 | 43 | 40 | 39 | 38 |

| Asset Quality | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 1.66 | 1.83 | 2.08 | 1.77 | 2.43 |
| ALLL/Total Loans (median %) | 1.28 | 1.30 | 1.33 | 1.31 | 1.35 |
| ALLL/Noncurrent Loans (median multiple) | 2.61 | 2.57 | 2.17 | 2.33 | 1.80 |
| Net Loan Losses / Total Loans (median %) | 0.10 | 0.05 | 0.11 | 0.15 | 0.27 |

| Capital / Earnings | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Tier 1 Leverage (median %) | 9.96 | 9.69 | 9.59 | 9.67 | 9.38 |
| Return on Assets (median %) | 1.02 | 1.00 | 0.97 | 0.94 | 0.96 |
| Pretax Return on Assets (median %) | 1.47 | 1.38 | 1.40 | 1.35 | 1.39 |
| Net Interest Margin (median %) | 4.26 | 4.11 | 4.21 | 4.23 | 4.19 |
| Yield on Earning Assets (median %) | 6.23 | 5.93 | 5.73 | 5.83 | 6.04 |
| Cost of Funding Earning Assets (median %) | 2.00 | 1.81 | 1.50 | 1.54 | 1.83 |
| Provisions to Avg. Assets (median %) | 0.15 | 0.13 | 0.16 | 0.17 | 0.23 |
| Noninterest Income to Avg. Assets (median %) | 0.80 | 0.80 | 0.81 | 0.76 | 0.79 |
| Overhead to Avg. Assets (median %) | 3.11 | 3.08 | 3.12 | 3.16 | 3.16 |

| Liquidity / Sensitivity | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Loans to Assets (median %) | 68.2 | 66.8 | 67.1 | 67.7 | 66.8 |
| Noncore Funding to Assets (median %) | 23.4 | 22.9 | 21.2 | 22.1 | 21.0 |
| Long-term Assets to Assets (median %, call filers) | 11.6 | 12.2 | 14.9 | 13.4 | 15.3 |
| Brokered Deposits (number of institutions) | 57 | 56 | 50 | 55 | 46 |
| Brokered Deposits to Assets (median % for those above) | 3.4 | 3.6 | 2.1 | 2.8 | 2.2 |

| Loan Concentrations (median % of Tier 1 Capital) | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|---|--------------|--------------|--------------|-------------|-------------|
| Commercial and Industrial | 71.6 | 69.2 | 72.7 | 69.2 | 78.1 |
| Commercial Real Estate | 227.6 | 212.8 | 203.9 | 213.7 | 192.7 |
| <i>Construction & Development</i> | 56.8 | 54.3 | 49.2 | 51.1 | 44.0 |
| <i>Multifamily Residential Real Estate</i> | 5.3 | 5.4 | 5.1 | 5.5 | 4.0 |
| <i>Nonresidential Real Estate</i> | 128.7 | 127.9 | 129.0 | 128.8 | 131.7 |
| Residential Real Estate | 220.6 | 223.8 | 221.9 | 224.5 | 227.4 |
| Consumer | 58.9 | 59.6 | 64.2 | 62.0 | 69.3 |
| Agriculture | 15.8 | 15.6 | 14.3 | 16.0 | 14.1 |

BANKING PROFILE

| Largest Deposit Markets | Institutions in Market | Deposits (\$ millions) | Asset Distribution | Institutions |
|--------------------------------------|-------------------------------|-------------------------------|------------------------------|---------------------|
| Memphis, TN-MS-AR | 54 | 25,949 | < \$250 million | 145 (71.8%) |
| Nashville-Davidson--Murfreesboro, TN | 53 | 23,141 | \$250 million to \$1 billion | 52 (25.7%) |
| Knoxville, TN | 28 | 8,693 | \$1 billion to \$10 billion | 4 (2%) |
| Chattanooga, TN-GA | 27 | 6,310 | > \$10 billion | 1 (0.5%) |
| Kingsport-Bristol-Bristol, TN-VA | 26 | 3,675 | | |